



USDA Foreign Agricultural Service

# GAIN Report

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**Peru**

**Coffee**

**Annual**

**2006**

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**Report Highlights:**

Coffee production for MY 2006/2007 is forecast at 3.5 million 60-kilogram bags. Exports in MY 2005/2006 fell 33 percent compared to the previous year, but are expected to recover next year. Exports in MY 2006/2007 are forecast at 3.29 million 60-kilogram bags.

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Includes PSD Changes: Yes  
Includes Trade Matrix: Yes  
Unscheduled Report  
Lima [PE1]  
[PE]

## Summary

Coffee production for Marketing Year 2007 (April/March) is expected at 3.5 million 60-kilogram bags, a significant recovery compared to the previous year. Due to physiological stress, which causes plants to decrease its production dramatically every four to six years, coffee production fell 32 percent in MY 2006. However, production is expected to resume and increase sharply in the upcoming years encouraged by good international prices.

Coffee in Peru is mostly grown by very small producers, the average producer has 2-3 hectares under production. About 75 percent of the coffee grown in Peru is produced over 1,000 meters above sea level and as high as 1,800 meters. Yields are around 750 kilograms per hectare but can reach 2,300 kilograms per hectare among the most efficient producers. Low yields are due to poor cultural practices such as fertilization and plant replacement.

Production of special coffees (organic, gourmet and fair trade) has increased significantly in past three years. Exports rose from 24,380 MT (\$61 million) to 27,140 MT (\$80 million), this trend is expected to continue in the near future.

Coffee exports in MY 2006/2007 are expected at 3.29 million 60-kilogram bags. Peruvian coffee producers are confident to double its exports in the next four years due to increasing demand. Germany and the U.S. are the most important markets for Peruvian coffee with about 32 and 23 percent of total exports respectively.

<b>PSD Table</b>							
<b>Country</b>	<b>Peru</b>						
<b>Commodity</b>	<b>Coffee, Green</b>			(1000 HA)(MILLION TREES)(1000 60 KG BAGS)			
	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [Old]	Post Estimate[ New]	USDA Official [Old]	Post Estimate[ New]	USDA Official [Old]	Post Estimate[ New]	
<b>Market Year Begin</b>		04/2004		04/2005		04/2006	MM/YYYY Y
Area Planted	285	285	280	280	0	285	(1000 HA)
Area Harvested	250	250	255	255	0	260	(1000 HA)
Bearing Trees	460	460	450	520	0	525	(MILLION TREES)
Non-Bearing Trees	25	25	20	20	0	20	(MILLION TREES)
TOTAL Tree Population	485	485	470	540	0	545	(MILLION TREES)
Beginning Stocks	5	5	5	39	5	24	(1000 60 KG BAGS)
Arabica Production	3500	3550	3100	2420	0	3500	(1000 60 KG BAGS)
Robusta Production	0	0	0	0	0	0	(1000 60 KG BAGS)
Other Production	0	0	0	0	0	0	(1000 60 KG BAGS)
TOTAL Production	3500	3550	3100	2420	0	3500	(1000 60 KG BAGS)
Bean Imports	0	0	0	0	0	0	(1000 60 KG BAGS)
Roast & Ground Imports	0	0	0	0	0	0	(1000 60 KG BAGS)
Soluble Imports	0	0	0	0	0	0	(1000 60 KG BAGS)
TOTAL Imports	0	0	0	0	0	0	(1000 60 KG BAGS)
TOTAL SUPPLY	3505	3555	3105	2459	5	3524	(1000 60 KG BAGS)
Bean Exports	3300	3306	2900	2225	0	3290	(1000 60 KG BAGS)
Roast & Ground Exports	0	0	0	0	0	0	(1000 60 KG BAGS)
Soluble Exports	0	0	0	0	0	0	(1000 60 KG BAGS)
TOTAL Exports	3300	3306	2900	2225	0	3290	(1000 60 KG BAGS)
Rst,Ground Dom. Consum	70	70	70	70	0	70	(1000 60 KG BAGS)
Soluble Dom. Consum.	130	140	130	140	0	140	(1000 60 KG BAGS)
TOTAL Dom. Consumption	200	210	200	210	0	210	(1000 60 KG BAGS)
Ending Stocks	5	39	5	24	0	24	(1000 60 KG BAGS)
TOTAL DISTRIBUTION	3505	3555	3105	2459	0	3524	(1000 60 KG BAGS)

<b>Export Trade Matrix</b>	
<b>Country</b>	Peru
<b>Commodity</b>	Coffee, Green
Time Period	CY 2005
Exports for:	
U.S.	32,780
Others	
Germany	46,470
Netherlands	10,866
Belgium	7,522
France	6,300
Sweden	5,535
Canada	4,782
U.K.	4,675
Total for Others	86,150
Others not Listed	23,221
Grand Total	142,151

## Production

Coffee production for Marketing Year 2007 (April/March) is expected at 3.5 million 60-kilogram bags, a significant recovery compared to the previous year. Due to physiological stress, which causes plants to decrease its production dramatically every four to six years, coffee production fell 32 percent in MY 2006. However, production is expected to resume and increase sharply in the upcoming years encouraged by good international prices.

Coffee in Peru is mostly grown by very small producers, the average producer has 2-3 hectares under production. Peru produces coffee in three areas, the most important for both volume and quality is the central eastern slopes of the Andes in Chanchamayo with 28 percent of total production. The other two areas are the northern Andes and Cusco with 21 and 18 percent respectively. Peru grows almost entirely Arabica coffee of which 70 percent is *typica* variety, about 20 percent *caturra*, and 10 percent others. About 85 percent of the crop is harvested between April and July.

About 75 percent of the coffee grown in Peru is produced over 1,000 meters above sea level and as high as 1,800 meters above sea level. Coffee grows under shade with a plant density of 2,000 plants per hectare, and is hand picked and sun dried which gives it a great potential for targeting high quality markets.

Yields are around 750 kilograms per hectare but can reach 2,300 kilograms per hectare among the most efficient producers. Low yields are due to poor cultural practices; most producers limit their cultural practices to picking the beans during the harvest. Because of relatively high costs, plant replacement and fertilization are rare among coffee growers. If prices are not attractive, as in the recent past, coffee producers prefer not to pick the beans to avoid harvesting costs. Average cost of production is about \$62 per hectare of which about 80 percent is labor.

Coffee producers face two major constraints. First, lack of credit, as private banks still do not accept the farmers' often untitled land as loan collateral, and there is no official government lending institution. Most farmers obtain their loans from coffee buyers or informal lenders, with high interest rate (around 14-20 percent), and a sale contract on the coffee's price. Second, during the land reform of the 1970's, land was divided into small plots, making it extremely difficult to efficiently manage coffee production, harvesting and processing.

Production of special coffees, organic, gourmet, fair trade, has increase significantly in past three years. Exports rose from 24,380 MT (\$61 million) to 27,140 MT (\$80 million), this trend is expected to continue in the near future.

## Consumption

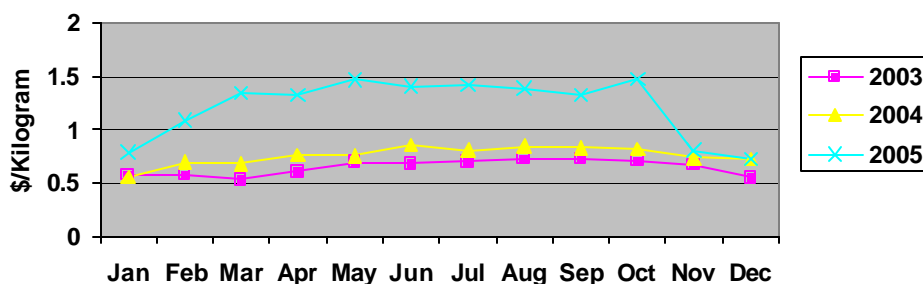
Coffee consumption in Peru is rather low, about 300 grams per capita, which translates into about 140,000 60-kilogram bags a year. Peruvian consumers have changed their consumption habits from roasted and ground to soluble coffee; around 75 percent of the coffee consumed in the country is soluble.

Consumption habits of coffee in Peru are slowly beginning to change. In the past three years several coffee shops, including Starbucks have established operations in Peru. This process will probably change consumer habits to roasted coffee as well as increase demand.

## Trade

Coffee is Peru's largest agricultural export with total exports at about \$306 million in CY 2005. The main markets for Peruvian coffee are Germany with 32 percent and the U.S. with 23 percent of the total exports in terms of volume. Coffee exports in MY 2006/2007 are expected at 3.29 million 60-kilogram bags. Peruvian coffee producers are confident that they will double its exports in the next four years due to increasing demand which is encouraging new plantations. Moreover, in 2005 the New York Board of Trade dropped the \$4 per hundred weight penalty it had on Peruvian coffee. The Peruvian Coffee Association requested NYBT to eliminate this discount due to improved quality.

**Coffee: Farm Prices**



Peru is the second largest organic coffee in the world (Mexico being the largest). Peruvian exports of special coffees have grown consistently in the years, from \$7.9 in CY 1998 million to \$80 million in CY 2005. Special coffees receive a premium of \$5 to \$40 per hundredweight. Aiming at promoting Peruvian gourmet coffee and increasing exports in the future, an association of gourmet coffees has been founded (APECAFE). This association estimates that gourmet coffee could become one of Peru's top agricultural exports and expects to reach \$100 million worth in exports next year.

## Policy

The GOP, through DEVIDA, the umbrella agency for counter narcotic affairs continues encouraging coffee production as an alternative crop to coca leaf production. The U.S. Agency for International Development (USAID) has been assisting approximately ten percent of Peru's coffee farmers to increase the production and quality as part of an economic development program aimed at increasing farmers' licit incomes in coca areas.

Part of this program is to match Peruvian coffee producers with U.S. gourmet coffee markets. Currently, AID through the PRA project is involved in developing business opportunities for

exporting coffee. They are switching their focus from production to developing markets overseas. Another important contribution of the USG is assisting producers to comply with Peruvian procedures for land titling. So far about 4,000 agricultural producers, many of them coffee producers, have prepared all the required documentation and are awaiting their titles.

As coffee buyers develop higher quality standards, such as good agricultural practices, good processing practices, HAACP; coffee producers will need permanent training to be able to comply with the international demand.